



Dave Yost • Auditor of State

MANAGEMENT LETTER

City of Beachwood
Cuyahoga County
25325 Fairmount Boulevard
Beachwood, Ohio 44122

To the Members of City Council:

We have audited the financial statements of the City of Beachwood, Cuyahoga County, Ohio (the City) in accordance with *Government Auditing Standards*, as of and for the year ended December 31, 2012, and have issued our report thereon dated June 28, 2013.

Government Auditing Standards require us to report significant internal control deficiencies, fraud, (including noncompliance with laws and regulations), and also abuse and noncompliance with contracts and grant agreements that could directly and materially affect the determination of financial statement amounts. We have issued the required report dated June 28, 2013, for the year ended December 31, 2012.

We are also submitting the following comments for your consideration regarding the City's compliance with applicable laws, regulations, grant agreements, contract provisions, and internal control. These comments reflect matters that do not require inclusion in the report *Government Auditing Standards* require. Nevertheless, these comments represent matters for which we believe improvements in compliance or internal controls or operational efficiencies might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing these recommendations. However, these comments reflect our continuing desire to assist your City. If you have questions or concerns regarding these comments please contact your regional Auditor of State office.

Noncompliance Finding

1. Blanket Certificates

Ohio Revised Code §5705.41(D) provides that fiscal officers may prepare so-called "blanket" certificates for a sum not exceeding an amount established by resolution or ordinance adopted by the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year.

The Finance Director uses "blanket" certificates, however, City Council has not established by resolution or ordinance the maximum amount they may be used for. As a result, "blanket" certificates may exceed the maximum amount desired by City Council.

We recommend City Council pass a resolution or ordinance establishing the maximum amount a "blanket" certificate may be used for.

Recommendations

1. Maintaining a log to track usage of City owned vehicles

According to the IRS reference guide to public employees, personal use of a government-owned vehicle is generally a taxable fringe benefit. It may, however, be excludable as a de minimis benefit (infrequent and of little value). Personal use includes the value of commuting in a government-owned vehicle, even if the vehicle is taken home for the convenience of the employer. The value of the benefit must be included in wages, but withholding of income tax on the value of vehicle use is at the employer's option. There are three methods that can be used to determine the value of the vehicle provided to the employee: 1) Lease value rule 2) Cents-per-mile rule 3) Commuting valuation rule. The City uses the lease value rule which requires that you multiply the annual lease value by the percentage of personal miles out of the total miles driven by the employee. This is the value of the taxable benefit.

To conform to the accountable plan rules, employees using a vehicle for business purposes should keep daily records of business miles by keeping a log containing the following information:

- a) Date
- b) Mileage (beginning and ending)
- c) Destination
- d) Business purpose
- e) Personal use mileage
- f) Commuting mileage

Ordinance 2008-160 provides the Mayor with the use of a City-owned vehicle as part of his compensation package. A review of the City's policy on government owned vehicles, A2001-001, disclosed it does not require utilization of a log to track and monitor daily usage. As a result, City owned vehicles may be used for personal use without being detected.

We recommend the City modify its policy on government owned vehicles to include utilization of a daily log that includes the information suggested in the IRS guidance.

2. Establish a policy for frequent flyer benefits

Ohio Ethics Commission Advisory Opinion No. 91-010 indicates that a state official or employee (Ohio Rev. Code Section 102.03(D) and (E)) and a state officer or employee (Ohio Rev. Code Sections 2921.42(A)(4) and 2921.43(A)) is prohibited from accepting, soliciting, or using the authority of influence of their position to secure, for personal travel, a discounted or free "frequent flyer" airline ticket or other benefit from an airline if they have obtained the ticket or other benefit from the purchase of airline tickets, for use in official travel, by the department, division, agency, institution, or other entity with which they serve, or by which they are employed or connected.

While the City does have a travel reimbursement policy it does not address benefits obtained from "frequent flyer" airline tickets that are the result of travel incurred while on official government business. This may result in employees obtaining benefits they are not entitled to.

We recommend the travel reimbursement policy be amended to include benefits obtained from "frequent flyer" airline tickets while on City business.

We intend this report for the information and use of City Council, audit committee and management.

A handwritten signature in black ink, reading "Dave Yost". The signature is fluid and cursive, with the first name "Dave" and last name "Yost" clearly distinguishable.

Dave Yost
Auditor of State

Columbus, Ohio

June 28, 2013